

June 2001

United States
Department of
Agriculture**Fact Sheet****Upland Cotton****Summary of 2000 Commodity
Loan and Payment Program****Legislative Authority**

The Federal Agriculture Improvement and Reform Act of 1996 (1996 Act).

**Production Flexibility
Contracts (PFC)**

Producers with approved production flexibility contracts are eligible for contract payments, and cotton produced on farms with PFCs is eligible for marketing assistance loans and loan deficiency payments. For the 2000 crop only, producers growing upland cotton on a farm without a PFC are also eligible for loan deficiency payments.

Contracts began with the 1996 crop and end with the 2002 crop; they must have been entered into during a one-time signup period that ended in July 1996. The only additional acreage eligible for a production flexibility contract is acreage released from expiring Conservation Reserve Program (CRP) contracts. For more detailed information on PFCs, see the Farm Service Agency's (FSA) "Production Flexibility Contracts and Marketing Assistance Loans" fact sheet.

Contract Payments

The 1996 Act sets fixed totals for commodity contract payments for each of fiscal years (FY) 1996 through 2002. It also specifies each commodity's percentage

share of the total. Each commodity's share of the total payments is distributed to eligible producers on the basis of a payment rate determined by dividing the total commodity payment amount by the total eligible payment quantity. Payment quantities for individual farms are equal to 85 percent of the eligible acreage multiplied by the farm program payment yield.

Payment Rate

The upland cotton contract payment rate for the 2000 crop is 7.33 cents per pound. To the maximum extent practicable, all 2000 contract payments were made prior to the end of FY 2000 or by September 30, 2000.

Advance Payments

The Emergency Farm Financial Relief Act gave producers the option of receiving either one full PFC payment at any time during FY 2000 or two payments of 50 percent each at any time during the fiscal year. Those who do not choose a payment option will receive their full payment towards the end of FY 2000.

Payment Limitations

The total amount of contract payments made to a person under one or more PFCs during any fiscal year may not exceed \$40,000. Marketing loan gains and loan deficiency payments are limited to

\$150,000 per person. The three-entity rule is retained.

Planting Flexibility

Any commodity or crop may be planted on contract acreage on a farm, except fruits and vegetables (other than lentils, mung beans, and dry peas). However, fruits and vegetables may be grown under the following situations:

1. in any region with a history of double-cropping of contract commodities with fruits and vegetables;
2. on a farm with a history of planting fruits or vegetables, except that the contract payment will be reduced by an acre for each acre planted to a fruit or vegetable on the farm; and
3. by a producer with an established history of planting a specific fruit or vegetable, except that the area planted may not exceed the producer's average annual plantings in the 1991-1995 crop years (excluding any year with no plantings) and that a contract payment will be reduced by an acre for each acre planted to the fruit or vegetable.

**Eligibility for Marketing
Assistance Loans**

Producers are eligible to receive marketing assistance loans on all production of upland cotton on a

farm with a PFC, even if produced on noncontract acres. For cotton to be eligible for a marketing assistance loan, producers must comply with applicable conservation and wetland requirements, report their upland cotton planted acreage, comply with crop insurance requirements, and maintain beneficial interest in the cotton from harvest throughout the term of the loan. Further, cotton must be ginned, carry an approved USDA Agricultural Marketing Service class, and placed in a Commodity Credit Corporation (CCC)-approved warehouse. Cotton placed under a marketing assistance loan may be forfeited to CCC when the loan expires in full satisfaction of the loan.

Beneficial Interest

A producer is considered to have beneficial interest in the cotton if all of the following remain with the producer: (1) control of the commodity; (2) risk of loss; and (3) title to the commodity.

Loan Rate

Upland cotton loan rates under the 1996 Act are determined according to a statutory formula that compares domestic and world prices. The minimum loan rate is 50.00 cents per pound, and the maximum loan rate is 51.92 cents per pound. The 2000 loan rate for Strict Low Middling (SLM) 1 and 1/16 inch upland cotton, leaf grade 4, micronaire 3.5-3.6 and 4.3-4.9, strength 26.5 through 28.4 grams per tex, and length uniformity of 81

percent at average U.S. location (base quality) is 51.92 cents per pound.

Terms of Loans

Loans are available for a term of 10 months beginning the first day of the month in which the loan is made. Loan extensions beyond 10 months are not authorized. The last date to request a loan on 2000-crop cotton was May 31, 2001.

Adjusted World Price (AWP) and Step 1

The AWP is equal to the Northern Europe (NE) price (the 5-day average of the 5 lowest-priced growths for Middling (M) 1-3/32 inch cotton, CIF northern Europe), adjusted to U.S. base quality and average location. The AWP for individual qualities is determined using the schedule of loan premiums and discounts and location differentials. A "coarse count adjustment" (CCA) may be applicable for cotton with a staple length of 1-1/32 inches or shorter and for certain lower grades with a staple length of 1-1/16 inches and longer. The AWP and CCA are announced each Thursday.

A Step 1 adjustment to the AWP may be made when the 5-day average of the lowest U.S. growth quote for M 1-3/32 inch cotton, CIF northern Europe (USNE price), exceeds the NE price and the AWP is within 115 percent of the loan level. The Secretary may lower the AWP up to the difference between the USNE price and the NE price.

Loan Repayment Rate

The loan repayment rate is the lower of the loan rate or the AWP, less any applicable coarse count adjustment in effect at the time the loan is repaid.

Loan Deficiency Payments (LDP)

When the AWP is below the loan rate, eligible producers who agree to forego CCC loans may receive LDPs. All of the eligibility requirements listed above for marketing assistance loans also apply to LDP eligibility, except the cotton does not have to be ginned or warehouse-stored. Producers can lock in their LDP rate prior to ginning while the seed cotton is in ricks, modules, or trailers by providing module numbers at the time of application. LDPs are disbursed after the cotton is ginned. Another exception can be made to the beneficial interest requirement for cotton being sold direct from the gin if producers apply for the LDP at their FSA office in advance of ginning.

The LDP rate is equal to the difference between the loan rate and the loan repayment rate in effect during the week in which the application for payment is filed. LDPs are subject to the payment limitation. Producers are allowed to participate in the LDP program on a bale-by-bale basis.

Storage and Interest Policies

In general, the producer must pay interest charges at the time the loan is repaid; the producer is also

responsible for all charges accrued at the warehouse. However, CCC will waive interest charges and pay some or all of the storage charges that accrued during the loan period that are necessary to make the loan repayable at the lower of: (1) the loan rate plus storage and interest costs, or (2) the AWP. In the event of forfeiture of the loan to CCC, no interest is charged, and CCC assumes responsibility for the warehouse storage charges that accrued during the period the cotton was under loan. At forfeiture, the producer pays any unpaid receiving charges and any unpaid storage charges outside of the loan period.

User Marketing Payments (Step 2)

Step 2 is activated when the following two conditions are met: (1) the USNE price exceeds the NE price by more than 1.25 cents per pound for 4 consecutive weeks, and (2) the AWP is within 134 percent of the base loan rate. Payments are made available to eligible domestic users on cotton consumed at the mill and to eligible exporters on cotton exported during a week in which a Step 2 payment rate is in effect. The payment rate is equal to the difference in the fourth week of the 4-week period between the USNE price and the NE price, minus 1.25 cents per pound. Spending for Step 2 was reauthorized by Congress (PL 106-78, enacted October 1999) with no funding cap.

Special Import Quota (Step 3)

Whenever, for a consecutive 4-week period, the USNE price, adjusted by the value of any Step 2 payment rate in effect in the previous week, exceeds the NE price by more than 1.25 cents per pound, a special import quota equal to 1 week's consumption of upland cotton by domestic mills must be established. However, during any month for which the Secretary of Agriculture estimates an upland cotton stocks-to-use ratio of less than 16 percent, the USNE price shall not be adjusted for the value of any Step 2 payment in effect. To enter under the quota, cotton must be purchased not later than 90 days, and entered into the U.S. not later than 180 days, from the date the quota is announced. Although special import quota periods may overlap, a special import quota cannot be established if a limited global import quota is already in effect.

Limited Global Import Quota (Based on Spot Prices)

Whenever the base quality spot price for a month exceeds 130 percent of the average for the previous 36 months, a limited global import quota equal to 21 days of consumption of upland cotton by domestic mills must be opened for a 90-day period. Limited global quota periods cannot overlap, nor can a limited global quota be established if a special import quota is already in effect.

CCC Domestic Sales Policy

CCC may sell any cotton in its inventory at any price the Secretary of Agriculture determines will maximize returns to CCC.

Seed Cotton Loans

Recourse loans are available on seed cotton produced on farms with PFCs.

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UPLAND COTTON

Crop	1/	Acreage		Planted	Harvested	Planted less	Abandonment	Yield per			Total		
Year		Allotment	2/	Acreage	Acreage	Harvested	Percentage	Harvested			Supply		
8/1 - 7/31		<-----		1,000 acres	<-----	<-----	3/	Acre	Production	Imports			
							%	lbs/acre	<-----	1,000 bales	<-----		
1960		16,310	a	17,554	b	16,017	15,249	768	4.8	446	14,170	43	21,557
1961		18,458				16,526	15,575	951	5.8	438	14,220	69	21,206
1962		18,102				16,197	15,475	722	4.5	456	14,715	55	22,374
1963		16,250				14,699	14,072	627	4.3	516	15,130	54	26,114
1964		16,200				14,725	13,948	777	5.3	517	15,025	35	27,151
1965		16,200				14,075	13,540	535	3.8	526	14,864	30	28,873
1966		16,200				10,269	9,474	795	7.7	480	9,484	29	26,246
1967		16,200				9,380	7,931	1,449	15.4	446	7,374	149	19,513
1968		16,200				10,844	10,093	751	6.9	516	10,847	38	17,263
1969		16,200				11,804	10,982	822	7.0	433	9,913	30	16,320
1970		17,150				11,869	11,080	789	6.6	439	10,135	11	15,873
1971		11,500				12,253	11,370	883	7.2	438	10,379	42	14,555
1972		11,500				13,903	12,888	1,015	7.3	507	13,608	23	16,813
1973		10,000				12,395	11,887	508	4.1	521	12,896	27	17,076
1974		11,000				13,596	12,464	1,132	8.3	441	11,450	24	15,227
1975		11,000				9,408	8,730	678	7.2	453	8,247	36	13,932
1976		11,000				11,590	10,869	721	6.2	464	10,517	19	14,151
1977		11,000				13,604	13,201	403	3.0	519	14,277	1	17,157
1978		10,000				13,298	12,324	974	7.3	419	10,762	2	16,042
1979		13,476				13,887	12,742	1,145	8.2	547	14,531	4	18,440
1980		11,894				14,461	13,143	1,318	9.1	402	11,018	26	14,006
1981		12,838				14,272	13,783	489	3.4	542	15,566	18	18,198
1982		----				11,274	9,663	1,611	14.3	589	11,864	12	18,443
1983		----				7,863	7,285	578	7.4	506	7,677	8	15,529
1984		----				11,065	10,299	766	6.9	599	12,851	21	15,566
1985		----				10,601	10,145	456	4.3	628	13,277	33	17,334
1986		----				9,933	8,357	1,576	15.9	547	9,525	3	18,817
1987		----				10,259	9,894	365	3.6	702	14,475	2	19,419
1988		----				12,325	11,759	566	4.6	615	15,077	5	20,800
1989		----				10,210	9,166	1,044	10.2	602	11,504	2	18,532
1990		----				12,117	11,505	612	5.1	632	15,147	4	17,949
1991		----				13,802	12,716	1,086	7.9	650	17,216	13	19,491
1992	a	----				12,977	10,863	2,114	16.3	694	15,710	1	19,294
1993	a	----				13,248	12,594	654	4.9	601	15,764	6	20,226
1994		----				13,552	13,156	396	2.9	705	19,324	18	22,645
1995		----				16,717	15,796	921	5.5	533	17,532	400	20,520
1996		----				14,395	12,632	1,763	12.3	700	18,413	403	21,359
1997		----				13,648	13,157	491	3.6	666	18,245	13	22,178
1998		----				13,064	10,449	2,615	20.0	619	13,476	431	17,729
1999		----				14,584	13,138	1,446	9.9	595	16,294	53	20,183
2000		----				15,347	12,884	2,463	16.0	626	16,799	5	20,476

Note: See footnotes on page 6.

For years 1933 through 1959, see previous upland cotton fact sheets.

SUMMARY OF BASIC DATA

Crop Year	Domestic Mill Use	Exports	Total Use	Ending Stocks	Stocks-to-Use	National Average Support Price			Average Farm Price	Value of Production	Government Payments 5/
		1,000 bales			%	cents per pound				million \$	
1960	8,204	6,849	15,053	6,916	45.9	32.42 a	26.63 g		30.10	2,136	
1961	8,844	5,049	13,893	7,604	54.7		33.04 g		32.80	2,338	
1962	8,322	3,426	11,748	10,930	93.0		32.48 g		31.70	2,341	
1963	8,554	5,773	14,327	12,091	84.4		32.48 g		32.00	2,428	
1964	9,107	4,174	13,281	13,980	105.3	30.00 b	3.50 h	33.50 k	30.90	2,230	39 f
1965	9,454	3,029	12,483	16,734	134.1	29.00 b	4.35 h	33.35 k	29.30	2,086	69 f
1966	9,438	4,819	14,257	12,081	84.7	21.00 b	9.42 h	30.42 k	21.50	981	776 g
1967	8,948	4,316	13,264	6,379	48.1	20.25 b	11.53 h	31.78 k	26.50	938	935 g
1968	8,204	2,816	11,020	6,377	57.9	20.25 b	12.24 h	32.49 k	23.00	1,197	784 g
1969	8,001	2,863	10,864	5,727	52.7	20.25 b	14.73 h	34.98 k	21.90	1,040	823 h
1970	8,105	3,885	11,990	4,134	34.5	20.25 b	16.80 h	37.05 k	22.80	1,110	915 h
1971	8,076	3,376	11,452	3,182	27.8	19.50 c	15.00 i	35.00 l	28.10	1,399	818 i
1972	7,675	5,306	12,981	4,153	32.0	19.50 c	15.00 i	35.85 l	27.20	1,778	807 i
1973	7,384	6,111	13,495	3,753	27.8	19.50 c	15.00 i	41.53 l	44.40	2,747	705 i
1974	5,797	3,914	9,711	5,649	58.2	27.06 d	15.00 i	38.00 m	42.70	2,346	128 j
1975	7,160	3,300	10,460	3,615	34.6	36.12 d	0 j	38.00 m	51.10	2,023	118 j
1976	6,595	4,779	11,374	2,879	25.3	38.92 d	0 j	43.20 m	63.80	3,223	979 j
1977	6,416	5,459	11,875	5,278	44.5	44.63 d	0 j	47.80 m	52.10	3,568	69 j
1978	6,286	6,150	12,436	3,905	31.4	48.00 d	0 j	52.00 m	58.10	3,004	228 k
1979	6,441	9,177	15,618	2,962	19.0	50.23 d	0 j	57.70 m	61.00	4,344	108 l
1980	5,827	5,893	11,720	2,614	22.3	48.00 d	0 j	58.40 m	75.80	3,933	302 l
1981	5,216	6,555	11,771	6,567	55.8	52.46 d	7.67 j	70.87 m	55.40	4,038	550 l
1982	5,457	5,194	10,651	7,844	73.7	57.08 d	13.92 j	71.00 m	59.50	3,364	654 l
1983	5,853	6,750	12,603	2,693	21.4	55.00 d	12.10 j	76.00 m	65.30	2,430	434 l
1984	5,490	6,125	11,615	4,024	34.6	55.00 d	18.60 j	81.00 m	58.70	3,546	654 l
1985	6,352	1,855	8,207	9,289	113.2	57.30 d	23.70 j	81.00 m	56.80	3,560	1,054 l
1986	7,385	6,570	13,955	4,942	35.4	55.00 d	26.00 j	81.00 m	51.50	2,360	1,386 l
1987	7,565	6,345	13,910	5,718	41.1	52.25 d	17.30 j	79.40 m	63.70	4,413	953 l
1988	7,711	5,883	13,594	7,026	51.7	51.80 d	19.40 j	75.90 m	55.60	4,001	1,337 l
1989	8,686	7,242	15,928	2,793	17.5	50.00 d	13.10 j	73.40 m	63.60	3,555	826 l
1990	8,592	7,378	15,970	2,262	14.2	50.27 d	7.30 j	72.90 m	67.10	4,894	453 l
1991	9,548	6,348	15,896	3,583	22.5	50.77 e	10.10 j	72.90 m	56.80	4,728	940 l
1992	10,190	4,869	15,059	4,456	29.6	52.35 e	20.30 j	72.90 m	53.70	4,082	1,626 l
1993	10,346	6,555	16,901	3,303	19.5	52.35 f	18.60 j	72.90 m	58.10	4,367	1,719 l
1994	11,109	8,978	20,087	2,588	12.9	50.00 f	4.60 j	72.90 m	72.00	6,631	370 l
1995	10,538	7,375	17,913	2,543	14.2	51.92 f	0	72.90 m	75.40	6,358	38 l
1996	11,020	6,399	17,419	3,920	22.5	51.92 f	0	0	69.30	6,125	703 l
1997	11,234	7,060	18,294	3,822	20.9	51.92 f	0	0	65.20	5,709	991 l
1998	10,254	4,056	14,310	3,836	26.8	51.92 f	0	0	60.20	3,924	1,564 l
1999	10,104	6,303	16,407	3,672	22.4	51.92 f	0	0	45.00	3,534	2,336 l
2000	9,075	5,945	15,020	5,421	36.1	51.92 f	0	0	N/A	N/A	N/A

Note: See footnotes on page 6.

For years 1933 through 1959, see previous upland cotton fact sheets.

Columns are "numbered" and sub-footnotes are "lettered" under appropriate column footnote number.

1/ Crop marketing year: August 1 through July 31.

2/ Allotments and quotas first became effective in 1938. They were suspended from July 10, 1943, until 1950, and then suspended again from 1951-53. Includes the national allotment plus 63,224 acres for 1958 and 94,159 acres for 1959 required to establish State allotments equal to 99 percent of the previous year's State allotment and a national reserve for establishing minimum farm allotment of 100,000 acres for 1957 and 1958, 310,000 acres for 1959 and 1960, 60,000 acres for 1961, and 150,000 acres for 1970. Reflects the national base acreage allotment for 1971 through 1977 when no quotas were in effect. National Program Acreage (NPA) for 1978 through 1981. No NPA for the 1982 and subsequent crops because an acreage reduction program was in effect.

- a) In 1959 and 1960 producers could elect to plant within their regular allotment and receive support at full level (not less than 80 percent of parity), or
- b) In 1959 and 1960 producers could elect to increase their acreage as much as 40 percent over the regular allotment and receive support at a level of 15 percent of parity less than under a) above.

3/ Abandonment percentage is calculated from original plantings to upland cotton (regardless if ever planted to another crop) and actual cotton acreage harvested.

4/ a) Price support loan—basis M 1", micronaire (mike) 3.5-4.9—available on entire production with the allotment.

b) Loans shown for 1964-70 are basis—M 1", mike 3.5-4.9.

c) Loan rate—basis M 1", mike 3.5-4.9 net weight at average location—previously, a gross weight basis was used.

d) Loan rate—basis SLM 1-1/16", mike 3.5-4.9, net weight at average location.

e) Loan rate—basis SLM 1-1/16", mike 3.5-4.9, strength 24-25 grams per tex, at average location in the U.S.

f) Loan rate—basis SLM 1-1/16", mike 3.5-4.9, color 41, leaf 4, strength 24-25 grams per tex, at average location.

g) Support prices have been converted to make them comparable to basis M 1 inch. However, prior to 1961, basis was for M 7/8" cotton.

Purchases were also used to support prices in 1944, 1945, 1959, and 1960; purchase agreements were used in addition to loans in 1952. Price support was permissive during 1933-35 and in 1937, but was mandatory beginning in 1938. In addition to loans, payments have been made directly to producers since 1964. Prices were supported through loans for all years except 1936.

h) Price support loan—available on domestic allotment (67% of total allotment in 1964, and 65% in 1965-1970).

i) Preliminary minimum payment rate—available on full base acreage allotment.

j) Difference between target price and the higher of the calendar year average price or the base loan rate.

k) Total support on domestic allotment [footnote 4.b) plus footnote 4.h)].

l) Total guarantee. Set by formula.

m) Established target price.

5/ a) Conservation or Adjustment

b) Conservation and Parity

c) Conservation

d) Acreage Reserve

e) Soil Bank

f) Price Support

g) Diversion, Small Farm, and Price Support

h) Small Farm and Price Support

i) Set Aside and Small Farm

j) Disaster

k) Price Support \$889.9 million; Small Farm \$24.9 million

l)

GOVERNMENT PAYMENTS BY CROP YEAR (million \$)								
Year	Contract Payments	Marketing Loss Payments	Deficiency	Loan Deficiency	Disaster	Diversion	User Certificates	TOTAL
1979	--	--	--	--	107.5	40.5	--	148.0
1980	--	--	--	--	302.0	0	--	302.0
1981	--	--	468.4	--	81.2	0	--	549.6
1982	--	--	522.7	--	131.2	0	--	653.9
1983	--	--	431.4	--	--	0	--	434.4
1984	--	--	654.3	--	0	0	--	654.3
1985	--	--	857.8	--	0	196.0	--	1,053.8
1986	--	--	1,258.3	127.2	0	0	--	1,385.5
1987	--	--	953.1	0.4	0	0	--	953.5
1988	--	--	1,144.2	41.7	150.7	0	--	1,336.6
1989	--	--	655.3	0	170.6	0	--	825.9
1990	--	--	409.4	0	43.1	0	--	452.5
1991	--	--	552.3	154.2	93.3	0	140.3	939.7
1992	--	--	1,017.4	268.0	134.1	0	206.7	1,626.2
1993	--	--	1,053.4	304.0	163.0	0	198.9	1,719.3
1994	--	--	279.7	0	0	0	90.5	370.2
1995	--	--	4.2	0	0	0	34.1	38.3
1996	699.3	--	0	0	0	0	3.3	702.6
1997	597.5	--	0	3.0	0	0	390.2	990.7
1998	637.0	316	0	303.4	0	0	307.5	1,563.9
1999	616.0	613	0	685.0	0	0	421.6	2,335.6